Aiken & Associates
578 McNaughton Ave. West
Chatham, Ontario, N7L 4J6

Phone: (519) 351-8624
E-mail: randy.aiken@sympatico.ca

April 1, 2020

Ms. Christine Long
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: EB-2019-0194 – Submission of the London Property Management Association - Enbridge Gas Inc. Application for 2020 Rates – Phase 2

Please find attached the submissions of the London Property Management Association in the above noted proceeding.

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

c.c.   EGI Regulatory Proceedings (e-mail only)

EB-2019-0194

Enbridge Gas Inc.

Application for natural gas distribution rates and other charges effective January 1, 2020

SUBMISSIONS OF LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

Enbridge Gas Inc. ("EGI") filed an application with the Ontario Energy Board ("Board") on October 8, 2019 seeking approval for changes to its natural gas distribution rates effective January 1, 2020.

In Procedural Order No. 1, the Board accepted EGI's request to process and adjudicate the application in phases, with the incentive rate mechanism ("IRM") related changes and certain deferral and variance accounts to be addressed in Phase 2, with other elements, including the incremental capital module ("ICM") and proposed cost allocation changes deferred to Phase 2.

Parties reached a settlement on all issues in Phase 1 and the Board issued a decision on December 5, 2019 in which it accepted the Phase 1 Settlement Proposal which included an interim rate order for rates reflecting the IRM adjustments effective January 1, 2020.

In Procedural Order No.2 dated January 9, 2020, the Board that the UFG Report would be treated as pat of the record of Phase 2 of this proceeding. As part of the Phase 1 Settlement Proposal, the issue of eBill practices was added to Phase 2 of the proceeding.

EGI filed its Argument-in-Chief ("AIC") on March 11, 2020.

The following are the submissions of the London Property Management Association ("LPMA") related the Phase 2 issues.

B. THE OUTSTANDING ISSUES

i. Cost Allocation Study

As part of the August 30, 2018 Decision and Order in EB-2017-0306/0307 ("MAADs Decision"), the Board required EGI to file a cost allocation study that took into account four projects – Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall/Parkway D and the Hagar Liquefaction Plant – and that included a proposal for addressing TransCanada's C1 Dawn to Dawn-TCPL service.

As part of this proceeding, EGI filed the required cost allocation study and is seeking Board approval of the cost allocation methodology changes applicable to the Panhandle System and the St. Clair System, Parkway Station and Dawn Station. EGI does not propose to implement the cost allocation methodology changes until its next rebasing proceeding.

LPMA submits that the Board should neither approve or implement the cost allocation methodology changes as part of this proceeding and should defer any such changes to the cost of service rebasing application when a comprehensive cost allocation study will be filed and will be based on costs, as is the usual practice.

As indicated in its AIC, at paragraph 34, EGI prepared the cost allocation study based on a 2019 test year and based the 2019 revenue requirement on the 2019 forecast costs of the Union rate zone which were set equal to the forecast of 2019 revenue. However, as the Board is aware, the Union rate zone of EGI is currently under a price cap incentive regime which decouples costs from revenues. The Board stated this in the EB-2018-0305 Decision and Order for 2019 rates (page 26). The cost allocation study produced by EGI is based costs equal to revenues. Clearly this is not the case, an no costs were provided for 2019 that could be reviewed and investigated as part of this proceeding. A cost allocation study based on revenues is not a cost allocation study, it is a revenue allocation study. LPMA does not fault EGI for this. EGI did what it could given the Board directive to file a partial cost allocation study in the middle of an incentive regulation period.

EGI is proposing to implement the cost allocation methodology changes approved as a result of the cost allocation study with its next rebasing application and would be part of their overall cost allocation study to be presented in the rebasing proceeding. EGI describes a number of concerns with the implementing the cost allocation methodology changes during the current deferred rebasing application (AIC, paragraphs 51 – 57).

These concerns include the lack of review in the current proceeding of any rate design changes that may be needed as a result of the change in the allocation of costs, the magnitude of the changes that may result for some rate classes, rate stability and predictability under a price cap IR, the potential for rate volatility when a complete cost allocation is done at rebasing in 3 years and the impact on base amounts included in deferral and variance accounts.

LPMA agrees with and supports the submissions of EGI with respect to the implementation of the cost allocation methodology changes in the current proceeding.

Further, LPMA agrees with EGI that:

> *Enbridge Gas does not believe that implementation of these changes is appropriate before rebasing, because rebasing is the forum where the Company will be able to identify and reflect all necessary rate adjustments required to address cost allocation changes across the two legacy utilities, harmonization of rates and rate design considerations as described at Exhibit I.TCPL.1 part (d).* (Exhibit I.LPMA.2 (a))

EGI does indicate, however, that it believes it is appropriate to seek approval of the cost allocation changes related to the Panhandle and St. Clair System, Parkway Station and Dawn Station as part of this proceeding because the proposed changes are responsive to the Board's cost allocation study directive from the MAADs decision. (Exhibit I.LPMA.2)

In the same interrogatory response, EGI states that it has requested approval of these changes to comply with the Board's directive. LPMA disagrees.

The Board's directive from the MAADs decision, which is shown in paragraph 32 of the AIC states that EGI is required to file a cost allocation study in 2019 for <u>consideration</u> in the proceeding for 2020 rates. The Board did not direct EGI to implement any changes that come out of the cost allocation study. Nor did the Board in any way imply that a future Board panel had to approve any such proposed changes.

When asked directly if there was any reason why the proposed cost allocation changes brought forward in this application could not be deferred until a complete review of all cost allocation proposals is brought forward as part of the rebasing application, EGI stated that *"Assuming that the Board agrees, there is no significant reason why approval of the cost allocation proposals could not be delayed until the 2024 rebasing proceeding."* (Exhibit I.LPMA.2 (c)).

LPMA submits that the Board should not approve any of the proposed cost allocation changes in this proceeding. The rationale for this is found in the response to Exhibit I.LPMA.2 part (e). The question and response are provided below for ease of reference.

> Question
> *Would Board approval of the specific approvals in this proceeding be open to changes as part of the comprehensive cost allocation study to be filed for the rebasing year? If so, why is there a need to approve the proposals in this proceeding? If not, why should the cost allocation for some assets be fixed at the time of rebasing, while other changes would be open to review?*
>
> Response
> *Should the Board approve the cost allocation methodology proposals related to the Panhandle and St. Clair System, Parkway Station and Dawn Station as part of this proceeding, Enbridge Gas would use the approved methodologies in the preparation of the 2024 cost allocation study. The Board and intervenors could subsequently review and comment on any component of the cost allocation study as part of the 2024 rebasing proceeding. A modest potential benefit to having the proposed cost allocation methodology changes reviewed and determined in this proceeding is that a participant in the rebasing proceeding would presumably have to show reasons why a further change is warranted, given the Board's recent review of the allocation methodologies*. (emphasis added)

LPMA submits that the onus should not be on a participant to show reasons why a further change is warranted. The onus should be on the applicant to justify the reasons for the change.

An example that is relevant to the one of the changes proposed by EGI with respect to the splitting of the current Panhandle/St. Clair Transmission allocator into the Panhandle and St. Clair Transmission allocators can be found in Exhibit I.LPMA.5. When it comes to non-station and non-Dawn to Parkway transmission functions, the EGI proposal would result in three transmission allocators, being Panhandle, St. Clair and Other Transmission instead of the current two. The reason for the splitting of the Panhandle/St. Clair allocator into two parts is based on the dollar difference between the two allocators which is driven by the Panhandle Reinforcement project being put into service and the difference in the composition of the types of customers that use these assets. LPMA does not dispute the reasons for the proposal to use separate allocators.

However, as pointed out in the evidence at Exhibit B, Tab 1, Appendix C, Working Papers, Schedule 2, dated 2019-11-17, at page 1, the rate base associated with Other Transmission is $451.778 million, while that of Panhandle is $332.332 and St. Clair is $3.209 million. Given that the Other Transmission category is larger than the other two combined (and are proposed to be split in the current cost allocation study), and given the relatively small value of the St. Clair related rate base, an obvious question arises. Why is the Other Transmission allocator not divided into its components, such as the Owen Sound Line, Burlington Oakville Line and any other transmission lines included in this category? For each of these components, are the rate bases sufficiently different from one another and/or is the composition of customers served off of them sufficiently different from one another to warrant a splitting of the Other Transmission allocator into two or more new allocators? In other words, if the splitting of the Panhandle/St. Clair allocator is appropriate, is the splitting of the Other Transmission allocator also appropriate? The question at this time is not whether the splitting of the Other Transmission allocator should be done, the question is when is a review of the potential to split this allocator appropriate. LPMA submits that the appropriate time for a review is during a full cost allocation study as part of a rebasing application, and at the same time as the review of splitting the Panhandle/St. Clair allocator. The review of and potential changes in transmission allocators should not be done on a piecemeal basis, but rather at the same time.

If the Board determines that EGI's cost allocation proposals should be implemented before its next rebasing application, then LPMA submits that this change should be done as part of the 2021 rates case and not applied to 2020 rates. There are two reasons for this. First, it would allow EGI the time to conduct a more through review of rate design considerations and rate class impacts, as noted by EGI in its AIC at paragraph 58. This would allow parties to review the rate design proposals as part of the 2021 rates proceeding. Second, given the timing of the current proceeding, it is unlikely that a decision will be rendered in time for EGI would to reflect the cost allocation changes and the rate design adjustments and have these changes reflected in a final rate order. EGI indicates that once it receives a decision, it could take up to six months to implement the changes in rates. LPMA also notes that reviewing a draft rate order is not the appropriate place to consider rate design adjustments.

If the Board determines that it will implement the results from the partial cost allocation study in rates for 2020, 2021 or any year prior to a comprehensive cost allocation study as part of a rebasing application, then LPMA submits that the Board should implement all three of the proposed changes, being Panhandle/St. Clair, Parkway Station and Dawn Station. It would not be appropriate for the Board to approve one or two of these changes and not the complete package of changes.

ii. ICM Requests

EGI is seeking approval for ICM funding for two projects in 2020 – the Windsor Line Replacement Project (WLRP") in the Union South rate zone and the Don River Replacement Project ("DRRP") in the EGD rate zone.

a) Windsor Line Replacement Project

EGI filed a leave to construct application for the WLRP in August, 2019 (EB-2019-0172). To date, no decision has been issued by the Board with respect to the approval of the project. LPMA further understands that one of the issues in the proceeding was the correct sizing of the facilities needed, and the resulting costs.

LPMA submits that the Board should not approve ICM treatment for WLRP until the Board approves the project. Further the amount eligible for ICM treatment, assuming approval, should be based on any modifications to the project made by the Board in its approval of the project. If the project is not approved, the ICM request should be denied.

Assuming the project is approved in one form or another by the Board, LPMA supports the ICM treatment for this project. However, LPMA has two issues with respect to the amount of the ICM being requested and the treatment of the assets being replaced.

The first issue revolves around the overall in-service capital addition for the Union rate ones.

The EGI request for ICM funding the Union rate zone is $84.2 million (AIC, page 5). This figure is derived as the difference between the total capital in-service addition forecast for 2020 of $528.3 million and the materiality threshold of $444.1 million (Exhibit B, Tab 2, Schedule 1, Table 3, Updated).

LPMA has no issue with the calculate of the materiality threshold. However, LPMA submits that the capital in-service addition forecast of $528.3 million is overstated.

In calculating the ICM amount eligible for recovery in 2019 in EB-2018-0305, the Board used an in-service capital addition forecast of $518.5 million (Decision and Order dated September, 12, 2019, page 25). EGI forecast in-service capital additions for 2019 in the current proceeding of $539.9 million (Exhibit B, Tab 1, Schedule 2, Table 2, Updated 2020-01-15). However, actual in-service capital additions were materially lower than either of these figures, at $507.8 million (Exhibit I.LPMA.8, page 5).

Actual 2019 in-service capital additions were $32.1 million lower than forecast as recently as the middle of January of this year, and $10.7 million lower than the figure used to determine the amount of eligible ICM funding for 2019. This $10.7 million makes up a significant portion of the $120 million of eligible incremental capital that was approved for 2019.

In light of the material over forecast in in-service capital additions in 2019 based on both the amount used in the EB-2018-0305 calculation of the eligible incremental capital and in the forecast for 2019 in the current proceeding, LPMA submits that the Board should reduce the 2020 in-service capital addition by $10 million. The $10.7 million noted above is material based on the ICM funding rules that indicate any discrete project must have an in-service capital addition of at least $10 million.

This would reduce the eligible ICM request from $84.2 million (AIC, page 5) to $74.2 million.

The second issue that LPMA has is the treatment of the remaining rate base associated with the assets that are being replaced in the WLRP. The rate base of the value of these assets as of the end of 2019 was $1,091,559. The costs associated with these assets which will no longer be used or useful once the WLRP is complete, remain in rate base and remain in rates under the IRM methodology. This means that ratepayers will be paying for both the WLRP through the ICM and for the assets that are no longer used or useful through the IRM. LPMA submits that this is neither just nor reasonable.

If the Board approves the cost allocation changes noted in the preceding section and implements them in either 2020 or 2021 rates, then LPMA submits that the Board should also direct EGI to remove the costs associated with the replaced assets.

b) Don River Replacement Project

LPMA has had the opportunity to review the written submissions of Building Owners and Managers Association, Greater Toronto ("BOMA") dated March 26, 2020. LPMA supports the submissions of BOMA with respect to the DRRP, which are found at pages 7 through 10 of the submissions.

LPMA is concerned with the ability of EGI to move projects around and recover the costs of a project through an ICM in a year following a year in which the project did not quality for ICM treatment. LPMA notes that the Board approved level of capital expenditures for 2019 in EB-2019-0305 was $468.3 million which was below the materiality threshold of $468.5 million (EB-2019-0305 Decision and Order dated September 12, 2019, page 21).

In the response to Exhibit I.VECC.3, EGI stated that as a result of the Board's decision in EB-2018-0305 related to the denial of ICM status for the DRRP, they delay to the implementation of the DRRP and other changes to the 2020 portfolio resulted in reprioritization of capital. This resulted in the in-service capital 2020 to be revised, allowing EGI to accommodate a portion of the DRRP within the ICM threshold.

The actual 2019 in-service capital additions was $507.4 million for the EGD rate zone (Exhibit I.LPMA.8, page 3). This was nearly $40 million above the 2019 materiality threshold, even though the DRRP, with a cost of more than $35.4 million has moved from 2019 to 2020. This means that roughly $75 million in in-service capital additions was added to the 2019 forecast in EB-2018-0305, and no ICM was needed for the $38.9 million in excess of the materiality threshold (507.4 – 468.5).

The actual increase in 2019 has been partially offset by a reduction in the forecast for 2020 in-service additions from $546.6 million in EB-2018-0305 to $517.2 million in the current proceeding. However, this amount includes the $35.4 million for the DRRP that has been moved to 2020 from 2019.

EGI has presented no evidence that in the absence of moving the project from 2019 to 2020 and pushing forward more than $75 million in projects from 2020 to 2019, that there would be any discrete material projects for which ICM funding could be requested, given the in-service capital cost of any such project is at least $10 million.

iii. eBill Practices

LPMA supports eBilling. LPMA also supports informed customer choice. LPMA submits that EGI failed to support informed customer choice for its existing customers.

LPMA submits that eBills should be the default option for new customers. This reflects changes that have taken place in many industries and takes advantage of technologies that result in lower costs for customers. However, LPMA submits that new customers should be informed that they have the option of opting for paper bills at no additional cost to them.

With respect to existing customers, EGI switched the billing from paper to eBills for any customer for which it had an e-mail address. While LPMA supports the movement from paper bills to electronic bills, it does not support the unilateral movement of customers employed by EGI. EGI should have obtained informed consent from a customer before moving them to an eBill. Not all customers use e-mail to the same extent as others. Some customers undoubtedly check their e-mail several times a day, others might only check it once a week or even less frequently. For this latter group of customers, this would be the equivalent of having their mail delayed by a week or more and reducing the amount of time between receiving their invoice and the payment due date.

LPMA submits that on a going forward basis, EGI should continue to encourage its existing customers, regardless of rate class, to consider moving from a paper bill to an electronic bill. However, EGI should be required to obtain consent from the customer before that customer is switched. In addition, when a customer does consent to switch, the customer should receive both a paper and electronic bill for the next two invoices. Included in the paper bill should be a reminder that the customer has consented to move to an electronic invoice and should check their e-mail on a regular basis. In addition, EGI should ensure that customers are informed that they can switch back to paper bills at any time, at no additional cost.

<u>iv. UFG Report</u>

The Board directed EGI to file a report on unaccounted for gas ("UFG") by December 31, 2019. EGI retained ScottMadden, Inc. ("ScottMadden") to prepare a report that reviewed and evaluated factors contributing to UFG within the legacy EGD and Union service areas.

LPMA will not discuss the ScottMadden report in detail, but notes that it found the Union and EGD rate zones had average UFG percentages over the past 10 years that were lower than U.S. gas utilities and select Canadian gas utilities.

As indicated in its AIC (para. 91), EGI has committed to review and implement the recommendations from the UFG Report in its ongoing operations, including EGI's ongoing project to update the metering at the legacy EGD Victoria Square gate station where gas is received from TransCanada Energy.

EGI notes that it did not request any relief from the Board in relation to the UFG Report, but did commit to report upon its progress in implementing the recommendations set out in the UFG Report in its 2022 rates filing. LPMA submits that the Board should make this commitment a directive.

LPMA submits that while the ScottMadden report was useful, it did not provide information, that in the view of LPMA, should be available in time for the rebasing application following the conclusion of the current five-year IRM framework. This would provide a foundation for a better and more accurate allocation of UFG related costs, notably the Union rate zones.

As noted in the response to Exhibit I.LPMA.6, ScottMadden relied on previously filed information for Union Gas. This information did not separate UFG between the Union South and Union North rate zones.

In its AIC (para. 87), EGI notes that any comparison between the UFG for the legacy utilities is not an “apples to apples” comparison. The UFG level of 0.31% for Union includes volumes related to distribution, storage and transmission activities (and includes Union South and Union North), while the UFG level of 0.81% for EGD includes only volumes related to the distribution system.

As part of the upcoming rebasing application, LPMA submits that the Board should direct EGI to break down the UFG between Union North and Union South and between distribution related, storage related and transmission related volumes. This information could then be used to provide a more accurate cost driven allocation of the UFG related costs in the comprehensive cost allocation study that will be part of the next rebasing application.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
April 1, 2020

Randy Aiken
Consultant to London Property Management Association